

ESR HALF-YEARLY REPORT

for the six months ending 31 December 2016



we
are
ESR.



DIRECTORY

ESR Board of Directors

Denise Church QSO *Chair*

Marion Cowden *Deputy Chair*

Professor Bill Denny

Dr Helen Darling

John O'Hara

Richard Gill

Quentin Hix

Dr Andrea Grant

ESR Senior Leadership Team

Dr Keith McLea *Chief Executive*

Dr Graeme Benny *General Manager, Health*

John Bone *General Manager, Forensic*

Dr Libby Harrison *General Manager, Environmental Science*

Hamish Findlay *General Manager, Commercial and Business Development*

Celia Wellington *General Manager, People and Communications*

Steve Pyne *Chief Information Officer*

Bryan Lau Young *General Manager, Business Services*

Registered office

Kenepuru Science Centre

34 Kenepuru Drive

Porirua 5022

PO Box 50348

Porirua 5240

T: +64 4 914 0700

F: +64 4 914 0770

www.esr.cri.nz

Auditor

Chris Ussher of PricewaterhouseCoopers on behalf of the Auditor-General

Banker

ANZ Bank New Zealand Limited

Solicitor

Buddle Findlay



The Institute of Environmental Science and Research Limited (ESR) is a Crown research institute. It was incorporated in June 1992 and is wholly owned by the New Zealand Government. The two shareholding Ministers appoint a Board of Directors to govern the organisation. ESR has science facilities in Auckland, Wellington (Porirua and Wallaceville) and Christchurch.

CHAIR'S REPORT

Financial Results

The strong financial result is driven by revenue of \$35.8m, up \$2.5m on budget and \$2.1m ahead of the prior year, reflecting ESR's ongoing focus on new revenue and showing tangible progress towards achieving ESR's growth strategy. Increased revenues have been realised through higher Police contract volumes and growth in commercial revenues from both domestic and international clients. Sales of STRmix™ software continue to grow and ESR has been very successful in obtaining new research contracts, including funding from Marsden, HRC, and MBIE Smart Ideas for substantial multi-year projects.

Net profit after tax (NPAT) for the six months ending 31 December 2016 was \$1.4m, which is also ahead of budget. At this stage the full year results are expected to exceed the NPAT target of \$2.5m in the ESR Statement of Corporate Intent. ESR's balance sheet is looking strong with a cash balance of \$17.3m. Cash surpluses will be used to address ageing infrastructure as outlined in the Statement of Corporate Intent.

ESR strategy

ESR made good progress on implementing strategic initiatives over the six months.

ESR's world leading forensic software product STRmix™ sold well in existing markets and the first sale of STRmix™ in Asia was achieved.

ESR worked in partnership with the Ministry of Health (MoH) and Police to increase the impact of ESR's science on partners' strategic goals and to improve the financial sustainability of contracts. Improving the financial sustainability of both contracts remains challenging due to the ongoing financial constraints faced by MoH and Police.

ESR continued to focus on building core capability in genomics and bioinformatics and developing close collaborative relationships with other organisations. ESR met with a range of key stakeholders in human genomics with a view to developing a nationally coordinated approach to ensure New Zealand's genomic capabilities are focused on affordable best patient outcomes.

Options for replacing the ageing science facilities at Kenepuru and Christchurch were examined. Alternative building design and construction were explored to reduce capital outlay, reduce time to complete and have more adaptable space compared to traditionally built science infrastructure.

Building on the improved results from financial, research, outcomes and stakeholder satisfaction over the last two years, ESR has been reviewing its long term strategy to maintain this momentum and continue to keep New Zealanders safe and healthy. Key opportunities in the evolving strategy include being at the forefront of developments in genomics and bioinformatics, providing our clients with better data, evidence and analysis to support their decisions, increasing international growth of our innovative products and services, developing ESR's next operating model and the property strategy.

Outcomes

In public health, ESR mobilised its science and clinical staff as part of the multi-organisational response to the campylobacter outbreak in Havelock North. ESR scientists worked closely with the Ministry of Health, the District Health Board, local authorities and Massey University to identify the nature, source and approach to the contamination. The outbreak demonstrated ESR's nationally significant response capability, which was fully mobilised through evenings and weekends. ESR's clinical and environmental microbiological expertise and genomics work were critical to the analysis and epidemiological assessment of the cause, spread, and response. ESR's groundwater team provided unique modelling capabilities and expertise to understand the transport of the organism in aquifers and groundwater.

To improve justice outcomes, ESR's forensic scientists continued to identify and interpret evidence from crime scenes, provide analytical expertise in DNA, trace evidence, toxicology and drugs, and provide expert evidence in court. ESR scientists began testing wastewater samples for drugs in Auckland and Christchurch to provide Police with valuable intelligence on the volume and trends in drug usage in a region. ESR was also selected as a strategic partner in the Evidence Based Policing Centre, which will use the best research evidence available to reduce crime, enhance policing and efficiently redirect police resources to where they are needed most.

To improve the safety of food consumed in New Zealand and enhance the reputation of New Zealand food in key export markets, ESR provided science services to the Ministry for Primary Industries (MPI) and other clients. ESR is involved in several research projects funded by the New Zealand Food Safety Science and Research Centre, which has been established to enhance New Zealand's reputation as a quality food producer. ESR scientists worked on the five-yearly New Zealand Total Diet Study, testing food for agricultural chemicals, contaminant metals and some nutrients. The study is an important part of New Zealand's food safety system.

To improve water and the environment, ESR worked with councils on cleaning up New Zealand waterways. ESR began researching concurrently tracking multiple sources of water contamination using synthetic DNA tracers. ESR also partnered with a farmer in Canterbury to conduct a field trial to help cleanse polluted water entering Waihi River. The trial tests the efficiency of manuka woodchip mulch socks to cleanse drainage water, potentially providing another tool to help farmers improve their environmental footprint.



Denise Church QSO
Chair

KEY FINANCIAL PERFORMANCE MEASURES

	6 months ended 31 December 2016 Actual	Year ended 30 June 2017 Plan	Year ended 30 June 2016 Actual	Year ended 30 June 2015 Actual
Revenue, \$m	35.8	70.2	70.1	65.0
Operating margin, %	13.1	13.5	15.5	13.9
Return (NPAT**) on equity, %	6.2	5.7	8.9	6.5
Return (EBIT*) on assets, %	6.0	5.8	8.6	6.0
Acid test, ratio	2.6	1.5	1.7	1.5
Equity Ratio, %	70.6	76.0	71.3	67.3
Gearing, %	0.8	0.4	1.1	0.8
Interest cover	–	–	–	–
Annualised Operating margin per FTE	26,054	25,057	30,543	25,646

* Earnings (annualised surplus) before interest and taxation

** Net profit (annualised surplus) after taxation

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 31 December 2016

Note	Group unaudited 6 months ended 31 December 2016 \$'000s	Group audited 12 months ended 30 June 2016 \$'000s	Group unaudited 6 months ended 31 December 2015 \$'000s
Operating revenue			
Revenue from rendering of services	32,612	62,359	30,939
Strategic science investment funding	3,168	7,723	2,700
	35,780	70,082	33,639
Operating expenses			
Scientific materials	2,773	5,755	2,777
Subcontracting expense, commissions & royalties	4,211	7,142	3,240
Employee benefit expense	17,664	33,820	16,575
Depreciation and amortisation expense	2,797	5,519	2,757
Other expenses	6,453	12,528	5,922
	33,898	64,764	31,271
Operating profit	1,882	5,318	2,368
Finance income – interest income	114	163	96
Finance expense	(7)	(24)	(7)
Net finance income	107	139	89
Profit before income tax expense	1,989	5,457	2,457
Income tax expense	(600)	(1,615)	(745)
Profit for the period attributable to the Institute's shareholders	1,389	3,842	1,712
Other comprehensive income	–	–	–
Total profit and other comprehensive income for the period attributable to the Institute's shareholders	1,389	3,842	1,712

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2016

	Share capital \$'000s	Retained earnings \$'000s	Total \$'000s
Balance at 1 July 2015	8,494	32,654	41,148
Profit for the period		1,712	1,712
Other comprehensive income	–	–	–
Total comprehensive income	–	1,712	1,712
Transactions with owners:			
Dividend	–	–	–
Balance at 31 December 2015	8,494	34,366	42,860
Balance at 1 July 2016	8,494	36,496	44,990
Profit for the period		1,389	1,389
Other comprehensive income	–	–	–
Total comprehensive income	–	1,389	1,389
Transactions with owners:			
Dividend	–	–	–
Balance at 31 December 2016	8,494	37,885	46,379

The accompanying notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

for the six months ended 31 December 2016

	Group unaudited 6 months ended 31 December 2016 \$'000s	Group audited 12 months ended 30 June 2016 \$'000s	Group unaudited 6 months ended 31 December 2015 \$'000s
Non-current assets			
Property, plant and equipment	30,022	30,784	30,052
Investment	30	30	30
Intangible assets	10,351	11,044	11,350
	40,403	41,858	41,432
Current assets			
Cash and cash equivalents	17,311	12,364	11,358
Trade and other receivables	7,024	7,888	5,366
Derivative financial instruments	82	134	82
Inventories	892	875	804
	25,309	21,261	17,610
Current liabilities			
Trade and other payables	10,560	8,999	8,104
Employee benefits	3,349	2,925	2,863
Finance lease liabilities	128	258	386
Income tax payable	36	730	313
	14,073	12,912	11,666
Net current assets / (liabilities)	11,236	8,349	5,944
Non-current liabilities			
Employee benefits	1,237	1,194	765
Finance lease liabilities	250	250	168
Deferred taxation	3,773	3,773	3,583
	5,260	5,217	4,516
Net assets	46,379	44,990	42,860
Equity			
Share capital	8,494	8,494	8,494
Retained earnings	37,885	36,496	34,366
Total equity	46,379	44,990	42,860

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the six months ended 31 December 2016

	Note	Group unaudited 6 months ended 31 December 2016 \$'000s	Group audited 12 months ended 30 June 2016 \$'000s	Group unaudited 6 months ended 31 December 2015 \$'000s
Cash flows from / (used in) operating activities				
<i>Cash was provided from:</i>				
Customers		40,945	69,276	39,798
Interest received		114	163	96
		41,059	69,439	39,894
<i>Cash was applied to:</i>				
Suppliers and employees		(33,188)	(58,278)	(33,120)
Interest paid		–	(10)	(7)
Income tax paid		(1,294)	(1,045)	(780)
		(34,482)	(59,333)	(33,907)
Net cash inflow from operating activities	2	6,577	10,106	5,987
Cash flows from / (used in) investing activities				
<i>Cash was provided from:</i>				
Proceeds from sale of property, plant and equipment		–	2	1
		–	2	1
<i>Cash was applied to:</i>				
Purchase of property, plant and equipment		(1,275)	(3,810)	(2,186)
Purchase of intangible assets		(218)	(1,345)	(54)
		(1,493)	(5,155)	(2,240)
Net cash outflow from investing activities		(1,493)	(5,153)	(2,239)
Cash flows from / (used in) financing activities				
<i>Cash was provided from / (applied to):</i>				
Dividends paid		–	–	–
Repayment of finance lease liabilities		(137)	(291)	(92)
Net cash outflow from financing activities		(137)	(291)	(92)
Net increase in cash held		4,947	4,662	3,656
Cash and cash equivalents at the beginning of the period		12,364	7,702	7,702
Cash and cash equivalents at the end of the period		17,311	12,364	11,358

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of significant accounting policies

Reporting entity

These financial statements of the Institute of Environmental Science and Research Limited and its subsidiaries ('ESR' and the 'Group') are for the six months ended 31 December 2016.

ESR is a Crown Entity incorporated and based in New Zealand. Its registered office is at 34 Kenepuru Drive, Porirua.

ESR is a Crown research institute that provides specialist scientific services and research, particularly to the public health, food safety, security and justice systems, and the environmental sector.

Basis of preparation

The interim financial statements have been prepared in accordance with the requirements of the Crown Entities Act 2004, the Crown Research Institutes Act 1992, the Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements have been prepared on the basis of historical cost as modified by the revaluation of derivative financial instruments.

The interim financial statements should be read in conjunction with the financial statements and related notes included in ESR's annual report for the year ended 30 June 2016 (2016 Annual Report).

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000).

Changes in accounting policies

The accounting policies set out in the 2016 Annual Report have been applied consistently to all the periods in these interim financial statements. There have been no changes in accounting policies from those applied in ESR's 2016 Annual Report. Where necessary, comparative figures have been reclassified for consistency with current year disclosures.

Statement of compliance

These financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting, the New Zealand equivalent to International Accounting Standard 34 Interim Financial Reporting, and other applicable financial reporting standards as appropriate for profit oriented entities.

2. Reconciliation of profit / (loss) after taxation to cash flows from operating activities

	Group unaudited 6 months ended 31 December 2016 \$'000s	Group audited 12 months ended 30 June 2016 \$'000s	Group unaudited 6 months ended 31 December 2015 \$'000s
Profit for the period	1,389	3,842	1,712
Non-cash items:			
Depreciation and amortisation	2,797	5,519	2,757
Impairment of property, plant and equipment	–	–	58
Increase/(decrease) in provisions	–	37	–
Increase/(decrease) in provision for doubtful debts	–	15	–
Deferred tax charged to the income statement	–	149	–
Fair value (gain) / loss on derivative financial instruments	70	(134)	(69)
	2,867	5,586	2,746
Items classified as investing and financing activities:			
Loss on disposal of property, plant and equipment	–	62	4
Decrease/(Increase) in payables related to property, plant & equipment	151	(151)	–
Finance charge on leases	7	14	7
	158	(75)	11
Changes in working capital:			
Decrease / (increase) in trade and other receivables	846	2,904	5,401
Decrease / (increase) in inventories	(17)	(247)	(176)
Increase / (decrease) in income tax payable	(694)	371	(46)
Increase / (decrease) in employment benefits	467	693	202
Increase / (decrease) in trade and other payables	1,561	(2,968)	(3,863)
	2,163	753	1,518
Net cash inflow / (outflow) from operating activities	6,577	10,106	5,987

3. Capital commitments

The following amounts have been committed to by ESR, but have not been recognised in the financial statements.

	Group unaudited 6 months ended 31 December 2016 \$'000s	12 months ended Group audited 30 June 2016 \$'000s	Group unaudited 6 months ended 31 December 2015 \$'000s
Property, plant and equipment	289	431	943
Intangibles – software	21	58	28
Total capital commitments	310	489	971

4. Contingent liabilities

There are no known material contingent liabilities at 31 December 2016 (2015: nil).

5. Events subsequent to balance date

There were no events subsequent to reporting date that require disclosure in the financial statements.

▣ **Kenepuru Science Centre**

34 Kenepuru Drive, Kenepuru, Porirua 5022
PO Box 50348, Porirua 5240
New Zealand

T: +64 4 914 0700 F: +64 4 914 0770

▣ **Mt Albert Science Centre**

120 Mt Albert Road, Sandringham, Auckland 1025
Private Bag 92021, Auckland 1142
New Zealand

T: +64 9 815 3670 F: +64 9 849 6046

▣ **NCBID – Wallaceville**

66 Ward Street, Wallaceville, Upper Hutt 5018
PO Box 40158, Upper Hutt 5140
New Zealand

T: +64 4 529 0600 F: +64 4 529 0601

▣ **Christchurch Science Centre**

27 Creyke Road, Ilam, Christchurch 8041
PO Box 29181, Christchurch 8540
New Zealand

T: +64 3 351 6019 F: +64 3 351 0010

www.esr.cri.nz